

**SOUTH CAROLINA
COMMISSION ON HIGHER EDUCATION**

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2020



Independent Accountant's Report on Applying Agreed-Upon Procedures

May 20, 2021

Dr. Rusty Monhollon, President and Executive Director
and
Members of the Commission
South Carolina Commission on Higher Education
Columbia, South Carolina

We have performed the procedures described in Attachment 1 on the systems, processes and behaviors related to financial activity of the South Carolina Commission on Higher Education (the Commission) for the fiscal year ended June 30, 2020. The Commission's management is responsible for the systems, processes and behaviors related to financial activity.

The Commission's management has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose of understanding the systems, processes and behaviors related to financial activity. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

We were engaged by the Commission to perform this agreed-upon procedures engagement and conducted our engagement in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review engagement, the objective of which would be the expression of an opinion or conclusion, respectively, on the systems, processes and behaviors related to financial activity of the Commission for the year ended June 30, 2020. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures other matters might have come to our attention that would have been reported to you.

The concept of materiality does not apply to findings to be reported in an agreed-upon procedures engagement. Therefore, all findings from the application of the agreed-upon procedures must be reported unless the definition of materiality is agreed to by the Commission's management. Management of the Commission has agreed that the following deficiencies will not be included in the State Auditor's Report on Applying Agreed-Upon Procedures:

- Errors of less than \$1,000 related to cash receipts and non-payroll cash disbursements transactions.
- Errors of less than \$1,000 related to reporting packages.

We are required to be independent of the Commission and to meet other ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

This report is intended solely for the information and use of the governing body and management of the South Carolina Commission on Higher Education, and is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

George L. Kennedy, III, CPA
State Auditor

South Carolina Office of the State Auditor**Agreed - Upon Procedures Related to the South Carolina Commission on Higher Education (H03)****Cash Receipts/Revenues**

1. Haphazardly select ten cash receipts transactions and inspect supporting documentation to determine:
 - Supporting documentation for the transaction agrees with the general ledger as to amount, date, payor, document number, and account classification.
 - Revenues/receipts were deposited in a timely manner, in accordance with Proviso 117.1 of the fiscal year 2020 Appropriation Act.
 - Receipts are recorded in the proper fiscal year.

Findings

Improper Revenue Recognition – Revenue for a two year database subscription was recorded as entirely earned in fiscal year 2020, but the amount collected was partially unearned at year end. The Commission did not submit an Unearned Revenue Reporting Package to report the unearned revenue and, as a result, \$6,969 of revenue was recorded in the wrong fiscal year.

Grant Drawdown – We inspected two grant drawdown transactions where the amount deposited was, in total, \$1,253 more than the amount requested. The Commission was unable to provide documentation to fully clarify the discrepancies.

Management Response

The Commission agrees with the finding that a two-year database subscription was recorded as entirely earned in fiscal year 2020. Staff submitted the check to our Fiscal Affairs Office (Fiscal Affairs) for processing but did not identify it as being for a two-year subscription since typically subscriptions are for one year. Commission staff that submit checks to Fiscal Affairs have been instructed to closely review checks and supporting documentation to properly identify the period the revenue is earned. Fiscal Affairs staff will review this documentation before processing.

The Commission agrees with the finding that two grant drawdown amounts were for a different amount than the amount requested by the Commission. The U.S. Department of Veteran Affairs adds an administrative component to each of our drawdown requests based on the amount of our submission. The Commission will request from the grantor an explanation of how the administrative component is derived so future requests will align with deposits.

Cash Disbursements/Non-payroll Expenditures

2. Haphazardly select fifteen non-payroll disbursements and inspect supporting documentation to determine:
 - The transaction is properly completed as required by Commission procedures; invoice(s) agree(s) with general ledger as to vendor, amount, invoice number, and date.
 - The transaction is properly classified in the general ledger.
 - Disbursements are recorded in the proper fiscal year.

For federally funded cash disbursements/non-payroll expenditures, inspect supporting documentation to determine:

- Charges are in accordance with the requirements of the program, incurred during the approved grant period, and applied uniformly to both federally assisted and other activities of the recipient.

Cash Disbursements/Non-Payroll Expenditures

Finding

General Ledger Account Coding – Three disbursements totaling \$904,816 were improperly classified in the general ledger:

- One of the disbursements was for a \$397,140 scholarship that was coded to general ledger (G/L) account Non-Real Estate – Water Utilities instead of G/L account Scholarships Non-State Employees.
- The Commission also coded a \$500,000 payment for software maintenance subscriptions and portal hosting services to G/L account Programs and Licenses – Servers rather than G/L account Services, Maintenance and Warranties – Application Support. A similar finding was reported in the 2019 State Auditor's Report.
- Finally, a \$7,676 disbursement for application development and project management services was coded to G/L account Equipment and Support – Servers, but should have been coded to G/L account Services, Maintenance, and Warranties – Application Development.

Management Response

The Commission agrees with the findings that G/L account codes were used incorrectly. To help identify miscoded entries, the Commission will conduct a monthly analysis of the Vendors Payment Register and incorporate this into our standard operating procedures manual. During this analysis, we will compare the G/L accounts for each vendor payment with the G/L accounts used for that vendor in the previous fiscal year. Deviations will be scrutinized to help ensure proper classification.

Payroll

3. Haphazardly select five employees who terminated employment during the fiscal year to determine if the employee was removed from the payroll in accordance with the Commission's policies and procedures and that the employee's last pay check, including any leave payout, was properly calculated in accordance with applicable State law,

Findings

Untimely Termination – Similar to the finding reported in the 2019 State Auditor's Report, we observed issues with employment terminations:

- Three employees inspected were temporary employees whose employment exceeded one year. One employee was hired in March 2018, last worked in November 2018, but was not terminated from the Commission until December 2019. The employee remained in the South Carolina Enterprise Information System (SCEIS) payroll system until July 2020.
- Another employee was hired in June 2016, last worked in October 2019, and was not terminated until April 2020.
- Finally, one employee was hired in December 2016 but not terminated until May 2020.

Undocumented Pay Rate – We were unable to determine if two employees' final pay checks were properly calculated because the Commission was unable to provide documentation to support the hourly rate paid to each employee.

Payroll (Continued)

Management Response

The Commission agrees with the finding that three employees inspected were temporary employees whose employment exceeded one year and that two of the three were not terminated or removed from the South Carolina Enterprise Information System (SCEIS) until months after their last paycheck. The Commission currently contracts with the Department of Administration Shared Services (the Department) to aid with human resource functions. Beginning in Fall 2019, the Department began sending notifications to the Commission regarding temporary employee contract end dates. Based on this information, the Commission division directors plan the termination of temporary employees in their units based on business needs. Commission staff remain committed to tracking 12-month employees to ensure they are terminated prior to or at the 12-month mark.

The Commission agrees with the finding that two temporary employees' pay rates were undocumented. The two employees were hired prior to the Commission's shared services agreement with the Department and therefore prior to the creation of standard hiring procedures and forms used by the Department.

Journal Entries and Transfers

4. Haphazardly select five journal entries and transfers for the fiscal year and inspect supporting documentation to determine:
 - Postings in the general ledger agree to supporting documentation.
 - Transaction is properly approved.
 - The purpose of the transaction.

We found no exceptions as a result of the procedure.

Reporting Packages

5. Inspect fiscal year end reporting packages submitted to the Office of the State Comptroller General (CG). Compare the Master Reporting Package Checklist to reporting packages that were submitted. Compare the dates submitted to the due dates established by the CG's Reporting Policies and Procedures Manual. Compare responses in the Master Reporting Package Checklist and any required supplemental information to SCEIS and Commission prepared records.
6. In addition to the procedure above, perform the following:
 - Operating Leases Reporting Package

Agree amounts to the SCEIS general ledger, the SCEIS *Yearend Rptg Operating Lease Expense with Vendor* report and Commission prepared records. In addition, based on inspection of invoices and lease agreements, determine if rental payments were properly classified, coded, and calculated by inspecting and recalculating the following reported amounts: (1) Three haphazardly selected contingent rental payments; (2) One haphazardly selected payment for each vendor included in the "Other rental charges not classified above" rental payment classification; and (3) The periodic minimum payment, current expense, and future minimum lease payments for all operating leases reported.
 - Accounts Payable Reporting Package

Agree amounts to the SCEIS general ledger, SCEIS *Yearend Rptg - Prior Year Payables with Vendor* report, and Commission prepared records. Haphazardly select five payables from the Accounts Payable Summary Form and determine if the amounts were properly classified, calculated, and reported.

Reporting Packages (Continued)

- Subsequent Events Questionnaire

Compare responses and any required supplemental information to the SCEIS general ledger and Commission prepared records. In addition, haphazardly select five payables from the Subsequent Events Accounts Payable Worksheet and determine if the amounts were properly classified, calculated, reported, and excluded from the original Accounts Payable Reporting Package.

Findings

Operating Leases Reporting Package – Due to the omission of one lease from the Operating Leases Future Minimum Payment Schedule, future minimum payments reported by the Commission were understated by \$9,095. A similar finding was reported in the 2019 State Auditor's Report.

We also determined that \$1,342 of the rental payments reported as contingent rent was misclassified as current expense for one of the Commission's other leases.

Accounts Payable Reporting Package/Subsequent Events Questionnaire – Five payables reported on the Accounts Payable Reporting Package and three payables reported on the Subsequent Events Questionnaire were determined to be interfund payables. These payables totaled \$2,147,926 and should have instead been reported on the Interfund Payables Reporting Package or in supplemental information submitted with the Subsequent Events Questionnaire.

Management Response

The Commission agrees with the findings that the reporting packages in question were prepared incorrectly. For future submissions, the accounting manager will conduct an extensive review of the reporting packages prior to the Fiscal Director's final review and submission of the package.

Assets and Personal Property

7. Through inquiry of management and inspection of supporting documentation, determine that an inventory of Commission property, excluding expendables, was completed during the fiscal year as required by South Carolina Code of Laws Section 10-1-140.

We found no exceptions as a result of the procedure.

Governance, Risk and Compliance (GRC) SCEIS Module

8. Select the control identified through the SCEIS GRC system that was in place during fiscal year 2020 and inspect mitigating control documentation. Inquire of management to determine the control is operating as designed.

We found no exceptions as a result of the procedure.

Commission-Specific Provisos and Other Laws

9. Determine compliance with Commission-specific state provisos 3.1 (LEA:Audit); 11.1 (Contract for Services Program Fees); 11.2 (African-American Loan Program) of the fiscal year 2020 Appropriation Act by inquiring with management and observing supporting documentation.

Commission-Specific Provisos and Other Laws (Continued)

10. For all transactions posted to G/L account 5010980000 (Moving Expense Reimbursement – Reportable), inspect supporting documentation to determine compliance with the following requirements of South Carolina Code of Laws Section 8-11-135:
- The new employee's place of residence is outside of the State of South Carolina at the time of employment by the Commission.
 - The Commission can demonstrate that paying these costs is necessary to fill the position.
 - The maximum payment in any instance to any new employee may not exceed five thousand dollars.
 - The payment is certified by the Executive Director of the Commission (or the Commission chairman if the new employee is the agency head) as the total paid by the Commission toward the total moving cost incurred by the new employee.

Finding

Moving Expense Reimbursement – Due to a transposition error, the Commission paid an employee \$9 more than what the employee was owed for moving expenses.

Management Response

The Commission agrees with the finding that an employee was paid \$9 more than what the employee was owed for moving expenses. The Commission contracts with the Department of Administration Human Resources Department for data entry of these type of expenses. The Commission will begin a monthly review of transactions to mitigate potential future findings and include this process in our standard operating procedures manual.

Status of Prior Findings

11. Through inquiry of management and inspection of supporting documentation, determine the Commission has taken appropriate corrective action on the findings reported during the engagement for the prior fiscal year.

Observations

Based on discussions with management and through inspection and observation, we determined two prior year findings were corrected before the end of fiscal year 2020: (1) Cash Receipts/Revenue and (2) Journal Entries and Transfers.

We also identified similar findings related to (1) Cash Disbursements/Non-Payroll Expenditures; (2) Payroll; and (3) Operating Leases Reporting Package. See findings at **(1) Cash Disbursements/Non-Payroll Expenditures – General Ledger Account Coding**; **(2) Payroll – Untimely Termination**; and **(3) Operating Leases Reporting Package**.

Additionally, we observed the Commission did not remit any indirect cost revenue to the State General Fund. Therefore, corrective action was not taken on the indirect cost prior year finding.

Management Response

The Commission agrees with the finding that indirect cost revenue was not remitted to the State General Fund. The Executive Director and President will request assistance from the Executive Budget Office director on this matter.